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PAKISTAN: SOME REFLECTIONS ON ITS ECONOMIC FUTURE.(U)
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Pakistan: Some Reflections on its Economic Future

by

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Introduction

The World Bank divides the developing countries into three categories: low income, middle income and capital surplus oil exporters. There are 36 low income countries with a combined population of 2.3 billion and average per capita income of $230. Bhutan is the poorest in this group of countries with income per head of $80; Sudan, the richest with $370. There are 59 middle income countries; together they have a population of 985 million and average per capita income of $1420. Kenya is the poorest in this group with income per capita of $380; Spain, the most prosperous with $4380. There are seven capital surplus oil countries with only 26 million people and average income of $5500.

What distinguishes these three groups are some rather remarkable differences in the structures of their economies. The low income countries are primarily rural economies; they obtain nearly two-fifths of their gross domestic product from agriculture; have more than 70 percent of their population engaged in agriculture; less than a fifth of their population lives in urban areas; commodities, agricultural as well as industrial raw materials, account for nearly 90 percent of their merchandise exports; they depend on imports for meeting more than 10 percent of their food consumption; with high levels of illiteracy, low rate of children enrollment in schools, high rate of infant mortality and relatively low levels of life expectancy at birth, they have some distance to go before they can meet the basic needs of their people. Middle income countries

are different; they are much more urban, draw a much larger part of their national wealth from industry, manufactures account for the bulk of their exports, and have a fair degree of social development. Capital surplus oil exporters are, of course, dependent almost entirely on oil for exports and employment in the modern sector.

To which of these countries should Pakistan be assigned? In 1980, its per capita income was $325 which puts it amongst the group of low income countries. In this group of 36 nations, 21 were poorer than Pakistan, four at about the same level and eleven relatively more prosperous. However, as the data of Table 1 suggests, structurally Pakistan is a good deal different from low income countries: it is much more urbanized; agriculture, although an important sector, employs fewer people and accounts for a lower proportion of national wealth; manufactures contribute a significantly larger proportion of total export earnings; it is now a net exporter of food. It is only in the area of social development that Pakistan shares the characteristics of the poor nations. It would appear, therefore, that while Pakistan has the structure of a middle income country, the economy is functioning much below its potential. It is for this reason that in terms of income per head of the population, Pakistan has still to be included amongst poor nations.

The Past

This discrepancy between structure and income needs a word of explanation and the best way to provide it is to look at Pakistan's rather turbulent economic history. Analyzing Pakistan's past economic performance provides a number of interesting insights. Four of these deserve special mention. First, over the last three and a half decades, Pakistan has experienced wide fluctuations in the rate of growth of the national product. The fifties

were sluggish, the sixties were exceptionally buoyant; the rate of growth slowed down in the first seven years of the seventies but picked up again in the remaining four years of the decade. The decade of the eighties has begun with the country poised for rapid economic growth (Table 2). Second, the lead sectors of the economy kept changing over time. In the fifties, it was industry - especially large scale manufacturing - that led the rise of the economy; in the sixties, industry was joined by agriculture as the two most dynamic sectors; in the seventies, the bulk of the increase in gross domestic product came from such non-productive sectors as commerce, government and services (Table 4). These two features of Pakistan's economic past - erratic performance and abrupt change in sectoral emphasis - explain why Pakistan, even after it had developed the structure of a middle income economy, remains a poor country. Two other features provide some clues about the future - about what is possible and what should be some of the areas of emphasis for the present policy makers.

The first of these two additional features is revealed by a comparison of Pakistan's past economic performance with that of other low-income countries. This comparison shows that Pakistan's economy did not always move in step with that of the other economies of the Third World. During the fifties, per capita income in Pakistan increased at the rate of only one-third that of the increase in other low-income nations. In the sixties, Pakistan's growth rate was twice as high and in the seventies four times as much as that of other poor countries (Table 2 again). In the fifties, Pakistan was amongst the slowest growing economies; in the sixties, it was one of the top performers (Tables 2 and 3). Over the last three years while many of the poor nations have suffered reductions in the levels of their per capita incomes, income per head in Pakistan has grown by more than three percent per annum.

The second important difference between Pakistan and other Third World countries is in the area of social development. In this area, Pakistan has done less well. For instance, in 1980 the rate of literacy and the proportion of children enrolled in schools were both much lower than that of other low-income countries and the rate of infant mortality was much higher (Table 5).

A number of recent assessments of the future of the world economy suggest that the low-income countries are likely to perform very poorly during the rest of this decade. If Pakistan's past performance is any guide for the future, it would appear that this country at least need not follow the predicted trend. Pakistan could easily fare much better than the rest of the developing world if only its planners and decisionmakers focused their attention on the improvement of the country's human resource and emphasized the development of the sectors with high growth potential.

The Future

It should be possible for Pakistan to rectify the past mistakes and to achieve a rate of economic growth which would, by the end of this decade, graduate it from the group of low-income countries. By 1990, Pakistan could be a middle-income country if it did all of the following five things.

First, concentrate public attention as well as resources on social development. No country has been able to sustain high rates of economic growth without first improving the quality of its human resource. For Pakistan, this would mean increasing the rate of literacy, getting more children to go to schools, and improving the standard of rural health. Particular attention will have to be given to improving the health and educational standards of women: without an improvement in the levels of female health and literacy, the rate of population growth would not slow down. Reducing the rate of fertility is

the second priority for the country. At present, Pakistan has one of the highest fertility rates in the world; 6.3 children per married woman. With no change in this rate, population would grow to around 148 million by the year 2000; with a decline in the rate of fertility to the level of replacement, the population by the end of the century may not increase to much beyond 100 million. In all probability, population in 2000 will be in-between these two limits; by how much it increases between now and the end of the century will depend to some considerable extent on the emphasis the government puts on social development and population planning (Table 6).

Third, reduce the dependence of the economy on imported energy. Largely on account of the more energy-intensive route to development followed in the past, the burden on Pakistan of the increase in the price of imported oil has been much greater than on other developing countries. This burden may lessen somewhat if the remittances sent by the Pakistani workers continue to increase (Table 7). If the cost of importing oil increases at the rate of 4.0 percent per annum and that of remittances by 11.0 percent, Pakistan, in 1990, will spend only 17 percent of its total foreign exchange earnings on obtaining oil from outside. But it would be wrong to plan on the basis of such optimistic assumptions especially when Pakistan has domestic sources of energy it could tap. Already, the dependence on imported energy has decreased; (Table 8) this trend has to be quickened.

Fourth, agriculture sector holds the best promise for quickening the rate of economic growth in the future; it also holds the best hope of providing employment to the rapidly growing labor force, and reducing the rate of urbanization. In Pakistan, the yield of most of the important crops is one-third and one-half of their potential (Table 9). If yields were to double

over the next few years, grain output could increase to about 30 million tons by the year 1990. At this level of output in 1990, agriculture will not only be able to provide adequate nutrition to a population of some 95-100 million people but also generate an exportable surplus of about 5 million tons. Finally, Pakistan should take advantage of its geographic situation and exploit the developing markets in the Middle East not only for its labor and its surplus food but also for its manufactures. This is happening; in 1978, some 10 percent of manufactured exports from Pakistan went to the capital surplus oil exporters as against only 2 percent in 1962. But the potential for this is enormous.

Conclusion

It seems reasonable to conclude, therefore, that Pakistan could achieve a very rapid rate of economic growth over the next one decade. Growth over the last four years averaged 6.5 percent per annum; it could go up to between 7-8 percent in the next few years. It is possible - given the right policies and a reasonably favorable external environment - for Pakistan to increase its per capita income from $325 in 1980 to $525 in 1990. At income per head of $525, Pakistan would be a middle-income country in 1990; it would have arrived at the stage of development it could have reached in 1970.

Table 1

(all figures for 1980 in 1980 prices)

GNP per capita	$325
Population	82 million
GNP	$ 27 billion

Distribution of GNP

Agriculture	32%	($ 8.5 billion)
Industry	24%	($ 6.4 billion)
(Manufacturing)	(16%)	(($ 4.3 billion))
Services	44%	($11.7 billion)

Structure of demand

Gross Domestic Investment	18%	($4.86 billion)
Gross Domestic Saving	6%	($1.62 billion)
Resource Gap	12%	($3.24 billion)

Trade

Merchandise Imports	$4.4 billion
Merchandise Exports	$2.2 billion
Debt Service	$0.3 billion
Capital Inflow	$0.9 billion
Visible Trade Gap	$2.2 billion
Workers' remittances	$2.2 billion

Distribution of Population

Urban	28%	(23 million)
Rural	72%	(59 million)
Growth Rate	3% per annum	

Table 2: Pakistan's Growth Performance Compared with Other Countries

	GNP			GNP Per Capita		
	1950-60	1960-70	1970-80	1950-60	1960-70	1970-
Low Income Countries						
- Pakistan	3.4	6.7	5.7	0.9	3.8	2.6
- Asia	4.6	4.2	3.0	2.7	1.8	0.7
- Africa	4.6	4.1	3.4	2.4	1.7	0.2
- All	4.6	4.1	3.3	2.5	1.8	1.7
Middle Income Countries	5.9	6.1	5.5	3.1	3.5	3.1

Source: The data for 1950-60 are from David Morawetz, Twenty Five Years of Development, 1950 to 1975 (Baltimore, Md.: The Johns Hopkins, 1978), statistical annex and for 1960-70 and 1970-80 from the World Bank, World Development Report, 1981 (Washington, D.C., 1981), statistical annex.

Table 3: Rates of Growth in GNP Per Capita

Rates of Growth (Percent)	Number of Countries 1950-60	1960-70	1970-79
Less than zero	18	13	21
Between 0 and 1	10	9	12
Between 1 and 2	25	16	15
Between 2 and 3	23	20	18
Between 3 and 4	11	21	18
Between 4 and 5	8	14	8
Between 5 and 10	9	15	18
More than 10	1	2	-
Total	105	110	110

Source: The data for 1950-60 and 1960-70 are from David Morawetz, Twenty Five Years of Economic Development, 1950 to 1975, (Baltimore, Md.: The Johns Hopkins, 1978), Table A1, pp. 77-80 and for 1970-80 from The World Bank, World Development Report, 1980, pp. 8-9 and 38-39.

Table 4: Sectoral Growth in Pakistan, 1950-1979
(annual growth rates, percent)

	1950s	1960s	1970s*
Agriculture	2.3	5.2	2.3
Industry	8.1	9.1	2.3
Others	3.8	7.6	7.0
Growth in GNP	3.4	6.7	5.7

Source: Computed from Government of Pakistan, Pakistan Economic Survey, 1978-79 (Islamabad, Finance Division, 1979), Table 2.1 and 2.2 in the Statistical Annex.

*Data up to 1979 only.

Table 5: Social Progress in Developing Countries

	1960		1980	
	Pakistan	Low-Income Countries	Pakistan	Low-Income Countries
Education				
(i) Adult literacy rate (% of population)	15	22	21	31
(ii) Enrollment rate for children (%)				
Total	30	38	50	63
Males	46	-	68	-
Females	13		17	
Health				
(i) Infant mortality rate (per 1000)	142	141	113	105
(ii) Life expectancy (years)	41	41	51	49
(iii) Population receiving adequate nutrition	84	90	93	93

Source: Computed essentially from The World Bank, World Development Report, 1980 (Washington, D.C.: August 1980).

Table 6: Population Projections for Pakistan, 1980-2015
Under Four Different Assumptions
(In millions)

Projection Series	a	b	c	d
1980	80(2.9)	80(0.9)	80(2.9)	80(2.9)
1985	93(3.1)	84(1.2)	93(2.9)	93(2.7)
1990	108(3.1)	89(1.3)	107(2.8)	106(2.4)
1995	127(3.2)	95(1.4)	124(2.7)	120(2.1)
2000	148(3.2)	102(1.2)	141(2.5)	133(1.9)
2005	175(3.2)	109(0.9)	160(2.5)	146(1.7)
2010	204(3.2)	114(0.7)	182(2.4)	159(1.4)
2015	240	118	204	171

Projection Series

a. Constant fertility: a total fertility rate of 6.3 is assumed for the 1980-2015 period.

b. Replacement level fertility: a net reproduction rate of one is assumed for the 1980-2015 period.

c. Moderately declining fertility: total fertility rates are assumed of 6.3 (1980-85), 6.0 (1985-90), 5.7 (1990-95), 5.35 (1995-2000), 5.0 (2000-2005), 4.75 (2005-2010), and 4.5 (2010-2015).

d. Rapidly declining fertility: total fertility rates are assumed of 6.3 (1980-85), 5.5 (1985-90), 4.8 (1990-1995), 4.1 (1995-2000), 3.5 (2000-2005), 3.0 (2005-2010), and 2.5 (2010-2015).

Source: Samuel Lieberman, "Some Demographic Perspectives on Pakistan's Development," mimeo, Population Council, New York, August 1981.

Table 7

Low Income Countries		1980	1990
Oil imports:	price ($ per barrel)	29.8	40.9
	volume (million barrels per year)	110	146
	cost ($ million)	3,300	6,000
	exports ($ million)	18,000	22,000
	oil imports as % of exports	18.3	26.5
Pakistan:	cost of oil imports ($ million)	1,075	1.590
	exports ($ million)	2,365	4,250
	oil imports as % of exports	45.4	37.4
	workers' remittances ($ million)	1,750	5,100
	oil imports as % of total foreign exchange earnings	26.3	17.0

Source: The data on low income countries' oil imports are from the World Bank, World Development Report, 1980 (Washington, D.C., 1980) and for Pakistan, from Government of Pakistan, Pakistan Economy Survey, 1979-80 (Islamabad, Ministry of Finance, 1980), statistical annex.

Table 8: Commercial Energy Supply by Source
(percentages)

	1971-72	1979-80
Petroleum		
Imported	39	33
Domestic	4	4
Natural Gas	36	40
Coal	8	6
Hydro-electricity	13	17
Other	a/	a/
Total	100	100

a/ Less than 0.5 percent

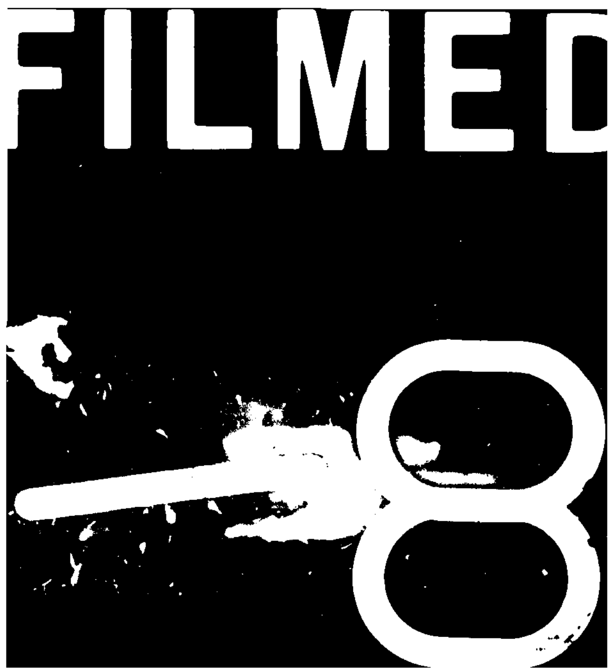
Source: Unpublished data from the Planning Division, Government of Pakistan.

Table 9: Actual and Potential Crop Yields

(tons/acre)

Crop	Mean Yield in 1976-77	Potential Yield	Ratio
Wheat	1.4	4.6	3.3
Rice	1.9	5.1	2.7
Maize	1.4	4.2	3.0
Sugarcane	29.6	78.5	2.7
Cotton	0.7	1.7	2.4

Source: Tariq Husain,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